

NORTH DAKOTA BUILDING AUTHORITY

FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NORTH DAKOTA BUILDING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

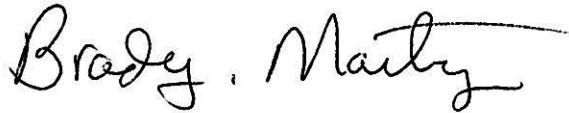
We have audited the accompanying financial statements of the North Dakota Building Authority, a component unit of the State of North Dakota, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of North Dakota Building Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Building Authority, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2011, on our consideration of the North Dakota Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style with a horizontal line extending from the end of the name.

BRADY, MARTZ & ASSOCIATES, P.C.

September 6, 2011

NORTH DAKOTA BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011 and 2010
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Building Authority (Authority) that follows is meant to provide additional insight into the Authority's activities for the years ended June 30, 2011, 2010 and 2009. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

The 2011 Legislature did not authorize any construction projects for the 2011-2013 biennium. The 2009 Legislature authorized the Authority to bond up to \$2,575 during the 2009-2011 biennium for the Veteran's Home Construction. During the fiscal year ended 2011, the Authority issued Series 2010A bonds in the amount of \$2,355 to finance the project. The Authority also issued Series 2010B bonds in the amount of \$4,910. A portion of the Series 2010B bonds was used to finance the Veteran's Home project, with the remaining portion used to advance refund a portion of the Series 2002A bonds.

Cash has increased \$646 to \$3,924 at June 30, 2011, as a result of the bonds issued to finance construction projects and decreased \$654 to \$3,278 at June 30, 2010, as a result of the construction projects progressing. Many of the projects authorized during the 2005 Legislative session have completed construction and others are nearing completion. The Veteran's Home project completed construction. It is anticipated that cash balances will steadily decline as the projects continue to progress.

Current investments at the Bank of North Dakota have increased \$2,050 at June 30, 2011 as a result of the bonds issued.

Based on certain bond covenants, the Authority is required to establish and restrict prescribed amounts of resources for debt service reserves. In addition, bond proceeds for the construction of projects are also classified as restricted.

The State agencies pay as rent the debt service on the related bonds. The leases also provide that the State agencies pay as additional rent to the Authority reimbursement for trustee fees, paying agent fees, registrar fees, audit fees, arbitrage rebate payments and fees, and other reasonable and necessary expenses incurred by the Authority or the Trustee on behalf of the Authority.

REQUIRED FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The financial statements of the Authority provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. It also serves as the basis for analysis of the soundness and liquidity of the Authority. The Statement of Revenues, Expenses and Changes in Fund Net Assets summarize the Authority's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Authority as it conducts its business.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

CONDENSED BALANCE SHEETS
JUNE 30, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
CURRENT ASSETS - RESTRICTED	\$ 20,115	\$ 16,872	\$ 22,740
NONCURRENT ASSETS - RESTRICTED	<u>69,645</u>	<u>78,169</u>	<u>85,759</u>
TOTAL ASSETS	<u>\$ 89,760</u>	<u>\$ 95,041</u>	<u>\$ 108,499</u>
LIABILITIES			
CURRENT LIABILITIES	\$ 10,903	\$ 9,465	\$ 12,059
NONCURRENT LIABILITIES	<u>78,857</u>	<u>85,576</u>	<u>96,440</u>
TOTAL LIABILITIES	<u>89,760</u>	<u>95,041</u>	<u>108,499</u>
FUND NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES & FUND NET ASSETS	<u>\$ 89,760</u>	<u>\$ 95,041</u>	<u>\$ 108,499</u>

Cash and Investments

Certain Authority cash and investments, which are included in the restricted current and noncurrent assets, are restricted for the debt service of bond issues or for construction. Additional discussion of cash investments can be found at Note 2 to the financial statements.

Leases Receivable

Obligations of North Dakota agencies and university system are classified separately on the balance sheet as "leases receivable" and included in the restricted current and noncurrent assets of the Balance Sheet. These leases are pledged to the various bond issues. No losses for market value declines are anticipated and an allowance has not been provided. Note 3 to the financial statements contains further information regarding leases receivable.

Bonds Payable

In order to provide state agencies with funds to finance projects, the Authority has issued bonds to facilitate the purchase of the lease. The bonds payable are included in the restricted current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Authority and are secured by leases purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 4 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

Rebate Due to IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. This liability is included in the restricted current liabilities. Note 6 to the financial statements contains additional information.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
Lease interest	\$ 3,621	\$ 3,876	\$ 4,206
Other	68	32	26
	<u>3,689</u>	<u>3,908</u>	<u>4,232</u>
NONOPERATING REVENUE			
Investment interest	<u>397</u>	<u>526</u>	<u>765</u>
TOTAL REVENUE	<u>4,086</u>	<u>4,434</u>	<u>4,997</u>
OPERATING EXPENSES			
Interest expense	4,000	4,326	4,905
Provision for Arbitrage Rebate due to IRS	27	32	27
Operating	59	76	65
	<u>4,086</u>	<u>4,434</u>	<u>4,997</u>
CHANGE IN NET ASSETS	-	-	-
TOTAL FUND NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Lease Interest

The state agencies have agreed to pay as rent the debt service (principal and interest) on the related bonds, to the extent that the bond funds and earnings are used to pay construction and other eligible costs of the projects. See Note 3 to the financial statements for further details of the leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Thousands)

Economic and Budgetary Information

The Authority is economically dependent on the North Dakota University System and agencies of the State of North Dakota.

As discussed in financial statement Note 1, the Authority operates through a biennial appropriation provided by the State Legislature. The Authority prepares a biennial budget, which is included in the Governor's budget that is presented to the State Legislature at the beginning of each legislative session. The Authority has continuing appropriation from monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

The Authority's bond rating is AA for the years ending June 30, 2011 and 2010.

Contacting the North Dakota Building Authority's financial management:

The information in this report is intended to provide the reader with an overview of the Authority's operations along with the Authority's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Building Authority, 600 East Boulevard Avenue, Department 405, Bismarck, ND 58505-0840.

NORTH DAKOTA BUILDING AUTHORITY
BALANCE SHEETS
JUNE 30, 2011 AND 2010
(In Thousands)

ASSETS	2011	2010
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 3,924	\$ 3,278
Investments at the Bank of North Dakota	6,456	4,406
Leases receivable	9,390	8,809
Investment interest receivable, Bank of North Dakota	33	42
Lease interest receivable	312	337
Total restricted current assets	20,115	16,872
NONCURRENT ASSETS - RESTRICTED		
Investments at the Bank of North Dakota	3,639	5,599
Lease receivable	65,116	71,604
Deferred bond financing costs, net	890	966
Total restricted noncurrent assets	69,645	78,169
Total assets	\$ 89,760	\$ 95,041
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ 3
Due to colleges, universities and state agencies	847	108
Rebate due to IRS	114	87
Bonds payable	9,630	8,930
Interest payable	312	337
Total current liabilities	10,903	9,465
NONCURRENT LIABILITIES		
Bonds payable	78,857	85,576
Total liabilities	89,760	95,041
FUND NET ASSETS	-	-
Total liabilities and fund net assets	\$ 89,760	\$ 95,041

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010
(In Thousands)

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Lease interest	\$ 3,621	\$ 3,876
Other	68	32
	<u>3,689</u>	<u>3,908</u>
OPERATING EXPENSES		
Interest expense	4,000	4,326
Expense from arbitrage rebate due to IRS	27	32
Operating	59	76
	<u>4,086</u>	<u>4,434</u>
OPERATING LOSS	(397)	(526)
NONOPERATING REVENUE		
Investment interest	<u>397</u>	<u>526</u>
CHANGE IN NET ASSETS	-	-
TOTAL FUND NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL FUND NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010
(In Thousands)

	2011	2010
OPERATING ACTIVITIES		
Receipts of rent	\$ 10,572	\$ 10,276
Receipts of additional rent and other	68	32
Payment to project vendors	(2,042)	(731)
Payments to service providers	(59)	(76)
Net cash from operating activities	<u>8,539</u>	<u>9,501</u>
NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	7,068	-
Principal payment on bonds payable	(13,125)	(12,920)
Bond financing costs	(41)	-
Interest paid on bonds payable	(3,870)	(4,411)
Net cash used for non-capital financing activities	<u>(9,968)</u>	<u>(17,331)</u>
INVESTING ACTIVITIES		
Interest received	2,165	3,855
Proceeds from sale and maturity of investment securities	6,106	8,833
Purchase of investment securities	(6,196)	(5,512)
Net cash from investing activities	<u>2,075</u>	<u>7,176</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	646	(654)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,278	3,932
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,924	\$ 3,278
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (397)	\$ (526)
Adjustments to reconcile operating loss:		
Amortization of bond financing costs	117	140
Net amortization of bond premium and deferred loss	38	(104)
Reclassification of interest income and expense to other activities	224	415
Changes in assets and liabilities:		
Lease receivable	7,794	9,889
Arbitrage rebate payable	27	31
Accounts payable	(3)	3
Due to colleges, universities and state agencies	739	(347)
NET CASH FROM OPERATING ACTIVITIES	\$ 8,539	\$ 9,501

NORTH DAKOTA BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Dakota Building Authority (Authority) was established July 1, 1985, by the North Dakota Legislature, as provided in Chapter 54-17.2 of the North Dakota Century Code, as a separate instrumentality of the State of North Dakota. The purpose of the Authority is to promote the general welfare of the citizens of the State by providing projects for use by the State in providing public services by altering, repairing, maintaining or constructing buildings primarily for use by the State and making any improvements connected to those buildings or pertaining to those buildings and necessary to the use of those buildings in providing services to the public.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, North Dakota Building Authority should include all component units over which North Dakota Building Authority exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on North Dakota Building Authority. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit North Dakota Building Authority or its constituents, and
- North Dakota Building Authority or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that North Dakota Building Authority is entitled to, or can otherwise access, are significant to North Dakota Building Authority.

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. North Dakota Building Authority is included as part of the primary government of the State of North Dakota's reporting entity.

Budgetary Process

The Authority operates through a biennial appropriation provided by the State Legislature. The Authority prepares a biennial budget, which is included in the Governor's budget that is presented to the State Legislature at the beginning of each legislative session. The State Legislature enacts the budgets of the various State departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the Authority's financial plan for the next two years. The Authority has continuing appropriation for monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

Basis of Accounting and Measurement Focus

The North Dakota Building Authority is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Authority recovers its costs through administrative charges to agencies and earnings on funds.

As a proprietary fund type, the Authority accounts for its transactions using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The accompanying financial statements of the North Dakota Building Authority follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 20, the Authority follows all applicable GASB Pronouncements as well as following Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Authority's investments consist entirely of certificates of deposit, and are reported at fair value.

Funds held by trustee under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Authority. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required.

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

Leases Receivable

The Authority's leasing operations, as lessor, consist of leasing real estate property under capital leases.

Lease payments are due upon receipt. In the event of non-payment, the item or installment so in default shall continue as an obligation of the agency until the amount in default has been fully paid. The agency agrees to pay interest on any basic rent in default at the rate or rates of interest payable on the Bonds as specified in the Indenture. The agency agrees to pay interest on Additional Rent in default at the rate or rates of interest equal to the Bank of North Dakota Base Rate.

Deferred Bond Financing Costs

Bond issuance costs are being amortized over the life of the bonds using the straight-line method.

Restricted Assets

The Authority, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt. Other restricted assets can only be used for construction projects financed by related bonds.

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The North Dakota Building Authority is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2011, the Building Authority had the following deposits (amount in thousands):

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 3,924	\$ 6,456	\$ 10,380
Non-current assets - restricted	-	3,639	3,639
	<u>\$ 3,924</u>	<u>\$ 10,095</u>	<u>\$ 14,019</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The North Dakota Building Authority is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2010, the Building Authority had the following deposits (amount in thousands):

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 3,278	\$ 4,406	\$ 7,684
Non-current assets - restricted	-	5,599	5,599
	<u>\$ 3,278</u>	<u>\$ 10,005</u>	<u>\$ 13,283</u>

Custodial and Concentration of Credit Risk

For a deposit, the custodial credit risk that, in the event of the failure of a depository financial institution, the Building Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Building Authority's deposits are uncollateralized and all of the deposits are with the Bank of North Dakota. The deposits at the Bank of North Dakota are backed by the full faith and credit of the State of North Dakota.

Cash is restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
Construction	\$ 3,810	\$ 3,148
Debt service	114	130
	<u>\$ 3,924</u>	<u>\$ 3,278</u>

Investments

Funds held by trustees or the Authority under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Authority. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which monies in the funds or accounts for which the investments were made will be required. The restricted bond accounts have their monies invested in certificates of deposit at the Bank of North Dakota.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 3 - LEASES RECEIVABLE

After receiving Legislative authority, the Authority purchases or constructs various facilities, which are generally financed by bonds. The facilities are leased to State agencies under terms described below.

The terms of the leases commence as of the date of the sale of the bonds and expire at the end of each biennium on June 30, subject to successive automatic two-year extensions under the provisions of each lease (unless the Legislature specifically fails to appropriate sufficient moneys for the payment of rent under the lease during any two-year renewal term).

Under the lease agreements, the State agencies have agreed to pay as rent the debt service on the related bonds from funds appropriated by the Legislature from the General Fund or other special funds, which may include federal funds.

The Authority is not required to make any expenditures in connection with the leases of the facilities. Upon expiration of a lease, the facility is conveyed to the appropriate agency. At June 30, 2011, future minimum lease payments under agreements are as follows:

2012	\$	9,390
2013		9,325
2014		9,583
2015		6,225
2016		6,429
2017-2021		25,989
2022-2026		7,565
		<hr/>
	\$	74,506
		<hr/>

The leases also provide that the State agencies pay as additional rent to the Authority for trustee fees, paying agent fees, registrar fees, letter of credit fees, audit fees and other reasonable and necessary expenses incurred by the Authority or the Trustee on behalf of the Authority.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 4 - LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2011 and 2010:

Balance, June 30, 2009	\$ 107,530
Additions	-
Retirements	(12,920)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium	(104)
Balance, June 30, 2010	94,506
Additions	7,068
Retirements	(13,125)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium	38
Balance, June 30, 2011	<u>\$ 88,487</u>

Maturities of Bonds Payable

Maturities of principal and interest on all bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Year Ending June 30,			
2012	\$ 9,630	\$ 3,540	\$ 13,170
2013	9,365	3,159	12,524
2014	9,750	2,765	12,515
2015	7,165	2,412	9,577
2016	6,480	2,137	8,617
2017-2021	28,510	6,973	35,483
2022-2026	17,240	1,699	18,939
2027-2031	910	147	1,057
	<u>89,050</u>	<u>22,832</u>	<u>111,882</u>
Unamortized bond premium	721	(721)	-
Unamortized deferred amount on refunding	<u>(1,284)</u>	<u>1,284</u>	<u>-</u>
	<u>\$ 88,487</u>	<u>\$ 23,395</u>	<u>\$ 110,825</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2011 and 2010:

Description and Due Date	Interest Rate	Original Value	2011	2010
Series 01A Bonds 12/1/04-12/1/10	4.25 - 4.50	13,200	-	580
Series 02A Bonds 12/1/04-12/1/22	4.30 - 5.25	9,595	1,025	6,130
Series 02C Bonds 8/15/04-8/15/14	3.75 - 4.30	10,665	4,198	5,207
Series 02D Bonds 12/1/04-12/1/16 (net of deferred loss on refunding of \$404 and \$471)	3.75 - 4.50	16,425	7,537	8,615
Series 03B Bonds 12/1/05-12/1/22	2.50 - 5.00	13,080	9,709	10,346
Series 03C Bonds 12/1/05-12/1/13	3.50 - 5.25	20,000	7,616	9,966
Series 05A Bonds 12/1/09-12/1/24	4.25 - 4.50	37,955	34,889	36,684
Series 06A Bonds 12/1/06-12/1/19 (net of deferred loss on refunding of \$263 and \$292)	4.00	10,460	7,101	7,640
Series 06B Bonds 12/1/07-12/1/22 (net of deferred loss on refunding of \$341 and \$369)	4.00 - 4.25	9,770	9,329	9,338
Series 10A Bonds 12/1/16-12/1/30	3.50 - 6.25	2,355	2,355	-
Series 10B Bonds 12/1/11-12/1/22 (net of deferred loss on refunding of \$277 and \$0)	2.00 - 4.00	4,910	4,728	-
Total bonds payable			88,487	94,506
Less current portion			9,630	8,930
Long-term portion			\$ 78,857	\$ 85,576

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

2001 Series A (Defeased Debt)

November 15, 2006, the Authority issued \$9,770 Lease Revenue Refunding Bonds, 2006B. The proceeds of the issue were for an advance refunding of a portion of the 2001 Series A. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$483. This amount is netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. The current refunding was undertaken to reduce total debt service payments over the next fourteen years by \$627 and resulted in an economic gain of \$520. As of June 30, 2011, these bonds were paid off.

2002 Series A (Defeased Debt)

December 28, 2010, the Authority issued \$4,910 Facilities Improvement Bonds, 2010B. Part of the proceeds of the issue was for an advance refunding of a portion of the 2002 Series A. Proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$300. This amount is netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. The current refunding was undertaken to reduce total debt service payments over the next twelve years by \$509 and resulted in an economic gain of \$317. As of June 30, 2011, there were bonds of \$4,195 outstanding.

2002 Series C

The proceeds of the issue were used for a current refunding of 1993 Series B. Interest on the 2002 Series C Bonds is payable semi-annually on February 15 and August 15 of each year. The bonds maturing on or before August 15, 2012 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after August 15, 2013 are subject to optional redemption in whole or in part on August 15, 2012. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2002 Series D

The proceeds of the issue were used for an advance refunding of 1995 Series A. Interest on the 2002 Series D Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2012 are subject to optional redemption in whole or in part on December 1, 2011. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2003 Series B

Interest on the 2003 Series B Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2013 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2014 are subject to optional redemption in whole or in part on December 1, 2013. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

NOTES TO FINANCIAL STATEMENTS

(In Thousands)

2003 Series C

Interest on the 2003 Series C Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2012 are subject to optional redemption in whole or in part on December 1, 2011. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2005 Series A

Interest on the 2005 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2015 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part on December 1, 2015. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as stated in the lease agreements, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2006 Series A

Interest on the 2006 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2014 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2015 are subject to optional redemption in whole or in part on December 1, 2014. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2006 Series B

Interest on the 2006 Series B Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2015 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part on December 1, 2015. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2010 Series A

Interest on the 2010 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2016 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

2010 Series B

Interest on the 2010 Series B Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

Reserve Funds

	2011		2010	
	Required Reserve Balance	Reserve Balance	Required Reserve Balance	Reserve Balance
2001A	\$ -	\$ -	\$ 120	\$ 120
2002A	320	320	864	864
2002C	1,067	1,067	1,067	1,067
2002D	1,526	1,526	1,526	1,526
2003B	1,035	1,035	1,035	1,035
2003C	2,000	2,000 *	2,000	2,000
2005A	3,289	3,289	3,289	3,289
2006A	1,046	1,046	1,046	1,046
2006B	977	977	977	977
2010A	236	236	-	-
2010B	491	491	-	-
	\$ 11,987	\$ 11,987	\$ 11,924	\$ 11,924

* Bank of North Dakota Letter of Credit

The 2001, 2002, 2003, 2005, 2006 and 2010 bond agreements require the establishment and maintenance of reserve funds to be used for debt service payments if amounts in the bond funds are insufficient to make the payments. Funds are also required for any positive arbitrage due the Federal government.

North Dakota Building Authority entered into a series of agreements with the State Board of Higher Education and the State Historical Society. These agreements require individual colleges and universities and State Historical Society to make debt service payments to NDBA.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

College and university and State Historical Society portion of bonds payable included on the balance sheet of North Dakota Building Authority is \$651:

	2001 A Bonds	2005A Bonds	Total
Minot State University	\$ 417	\$ -	\$ 417
State Historical Society	-	234	234
Total	<u>\$ 417</u>	<u>\$ 234</u>	<u>\$ 651</u>

These entities are only responsible for the principle amounts presented in the chart above.

Debt service requirements of the colleges and universities and State Historical Society:

2012	\$ 209
2013	242
2014	-
2015	33
2016	-
2017-2021	100
2022-2024	67
	<u>\$ 651</u>

NOTE 5 - DUE TO COLLEGES, UNIVERSITIES AND STATE AGENCIES

The North Dakota Building Authority is responsible for the distribution of construction voucher reimbursement as requested by the individual colleges and universities and state agencies for approved projects. A detail of the payables at June 30, 2011, and 2010, is as follows:

	2011	2010
Dickinson State University	\$ -	\$ 39
Veteran's Home	737	-
University of North Dakota	110	69
	<u>\$ 847</u>	<u>\$ 108</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 6 - REBATE DUE TO IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. A detail of the rebate at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Series 2002 C & D	\$ 114	\$ 87
Current arbitrage payable	<u><u>\$ 114</u></u>	<u><u>\$ 87</u></u>

NOTE 7 - PROJECT FINANCING

	<u>2011</u>	<u>2010</u>
Construction Funding		
University System		
Dickinson State University	\$ -	\$ 190
North Dakota State University	-	3
University of North Dakota	203	193
Other		
Veteran's Home	<u>2,575</u>	<u>-</u>
	<u><u>\$ 2,778</u></u>	<u><u>\$ 386</u></u>

	<u>2011</u>	<u>2010</u>
Lease Receipts		
NDUS Office/Campuses	\$ 6,629	\$ 6,699
ITD	2,700	2,700
State Penitentiary	625	1,539
Health and Consolidate	309	336
National Guard	34	34
Job Service	334	356
Attorney General	380	61
Extension Service	283	282
OMB	330	311
Parks and Recreation	38	36
Historical Society	691	389
Human Services	-	911
BND	<u>3</u>	<u>-</u>
	<u><u>\$ 12,356</u></u>	<u><u>\$ 13,654</u></u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 8 - RELATED PARTY

The North Dakota Building Authority is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. The Authority's deposits and investments are held by the Bank of North Dakota.

The Bank of North Dakota acts as the trustee for the bondholders having been duly appointed by the Authority. The Bank also acts as the paying agent, registrar, provider of letter of credit, and escrow agent for the bonds issued and defeased by the Authority. Fees paid by the Authority to the Bank of North Dakota for these services for the years ending June 30, 2011, and 2010, were \$34 and \$42, respectively.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2011, and 2010, were \$4 and \$3, respectively.

NOTE 9 - COMMITMENTS

The Authority has committed funds to complete various construction and modernization programs at June 30, 2011 as follows:

	<u>Amount</u>
University of North Dakota	<u>\$ 1,211</u>

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, and damage to assets and errors and omissions. These risks of loss are covered under the insurance policies owned by the North Dakota Industrial Commission, North Dakota Public Finance Authority and North Dakota Office of Management and Budget. The State Bonding Fund currently provides the agencies with blanket fidelity bond coverage in the amount of \$1,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year. In addition, there have been no claims filed or settled in the past three fiscal years.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Governor of North Dakota
Legislative Audit and Fiscal Review Committee
Industrial Commission of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Building Authority, a component unit of the State of North Dakota, as of and for the year ended June 30, 2011, which collectively comprise the North Dakota Building Authority's basic financial statements and have issued our report thereon dated September 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Building Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Building Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Building Authority's internal control over financial reporting.

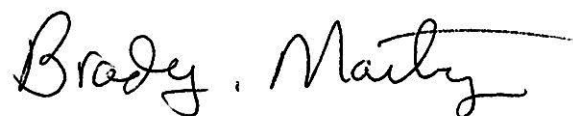
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Building Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Industrial Commission and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

September 6, 2011

**NORTH DAKOTA BUILDING AUTHORITY
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2011**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2011 audit of the Authority are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

Unqualified

2. Was there compliance with statutes, laws, rules and regulations under which the Authority was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the Authority?

No

5. Was action taken on prior audit findings and recommendations?

There were no prior year findings or recommendations.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

No.

Audit Committee Communications:

- 1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

None.

- 2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

None.

- 3. Identify any significant audit adjustments.**

None.

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

None.

- 5. Identify any serious difficulties encountered in performing the audit.**

None.

- 6. Identify any major issues discussed with management prior to retention.**

None.

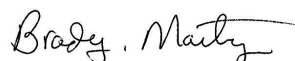
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

None.

- 8. Identify any high-risk technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six report questions to be addressed by auditors are directly related to the operations of an information technology system.**

Based on the audit procedures performed, the North Dakota Building Authority's critical information technology system is Great Plains. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties



BRADY, MARTZ & ASSOCIATES, P.C.

September 6, 2011



INDEPENDENT AUDITOR'S COMMUNICATION TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Building Authority for the year ended June 30, 2011, and have issued our report thereon dated September 6, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in January 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Building Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 6, 2011.

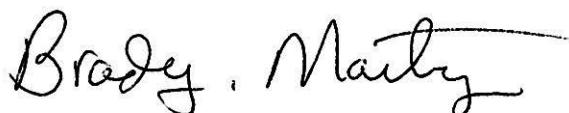
Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This letter is intended solely for the information and use of the North Dakota Industrial Commission and management of the North Dakota Building Authority, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

September 6, 2011